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BEFORE THE ARIZONA CORPORATION COMMISSION

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**COMMISSIONERS**

Arizona Corporation Commission

**DOCKETED**

**MAR 30 2007**

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
LITCHFIELD PARK SERVICE COMPANY  
FOR APPROVAL OF AN ACCOUNTING  
ORDER AUTHORIZING THE DEFERRAL OF  
COSTS ASSOCIATED WITH EFFORTS TO  
ADDRESS THE POTENTIAL  
CONTAMINATION OF WATER SUPPLY  
LOCATED IN MARICOPA COUNTY,  
ARIZONA.

DOCKET NO. W-01427A-06-0807

**NOTICE OF FILING  
RESPONSIVE TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Responsive Testimony of  
Jeffrey M. Michlik of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 30<sup>th</sup> day of March, 2007.

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30<sup>th</sup> day of March, 2007 with:

Docket Control  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

KRISTIN K. MAYES

Commissioner

GARY PIERCE

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
LITCHFIELD PARK SERVICE COMPANY FOR )  
APPROVAL OF AN ACCOUNTING ORDER )  
AUTHORIZING THE DEFERRAL OF COSTS )  
ASSOCIATED WITH EFFORTS TO ADDRESS )  
THE POTENTIAL CONTAMINATION OF )  
WATER SUPPLY LOCATED IN MARICOPA )  
COUNTY, ARIZONA )

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DOCKET NO. W-01427A-06-0807

RESPONSIVE

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 30, 2007

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**EXECUTIVE SUMMARY  
LITCHFIELD PARK SERVICE COMPANY  
DOCKET NO. W-01427A-06-0807**

Litchfield Park Service Company ("Company") is an Arizona corporation. The water/sewer utility is located in Maricopa County. The Company serves the City of Litchfield Park and the surrounding area in the West Valley.

**Accounting Order:**

The purpose of the proposed accounting order is to defer the Company's costs incurred in connection with potential groundwater contamination due to the Phoenix Goodyear Airport Superfund Site. The deferral of these costs would allow consideration of, but not authorize, recovery in future ratemaking proceedings.

The Company is requesting an accounting order that would authorize deferral of its costs incurred in connection with the Company's response to the potential groundwater contamination including but not limited to 1) litigation costs related to defending the Company against lawsuits; 2) litigation costs related to seeking restitution from polluters/contaminators; 3) increases in operation and maintenance costs from alternative (replacement) water sources; 4) capital costs of acquiring and/or constructing alternative (replacement) sources of water; 5) capital costs and/or operating expenses to treat contaminated water supplies; 6) settlement costs and/or amounts received as a result of settlements with polluters/contaminators; and 7) punitive damages received as the result of litigation against polluters/contaminators.

Staff recommends that the Company's accounting order be authorized to defer potential groundwater contamination costs due to the Phoenix Goodyear Airport North Superfund Site, in relation to the seven items listed above.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the  
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division  
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.  
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst V, I analyze and examine accounting,  
9 financial, statistical and other information and prepare reports based on my analyses that  
10 present Staff's recommendations to the Commission on utility revenue requirements, rate  
11 design and other matters. I also provide expert testimony on these same issues.  
12

13 **Q. Please describe your educational background and professional experience.**

14 A. In 2000, I graduated from Idaho State University, receiving a Bachelor of Business  
15 Administration Degree in Accounting and Finance, and I am a Certified Public  
16 Accountant with the Arizona State Board of Accountancy. I have attended the National  
17 Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School,  
18 which presents general regulatory and business issues.  
19

20 I joined the Commission as a Public Utilities Analyst in May of 2006. Prior to  
21 employment with the Commission, I worked four years for the Arizona Office of the  
22 Auditor General as a Staff Auditor, and one year in public accounting as a Senior Auditor.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations regarding Litchfield Park Service  
3 Company's ("LPSCO" or "Company") application for an accounting order. I am  
4 presenting responsive testimony to address the Company's application for the accounting  
5 order.  
6

7 **BACKGROUND**

8 **Q. Please review the background of this application.**

9 A. Litchfield Park Service Company is an Arizona Corporation engaged in the business of  
10 providing public water and sewer services in Maricopa County. On December 28, 2006,  
11 the Company filed an application with the Commission for an accounting order authorizing  
12 the deferral of costs associated with efforts to address the potential contamination of the  
13 Company's water supply located in Maricopa County, Arizona. On January 25, 2007, Staff  
14 filed a request for a Procedural Order scheduling the matter for a hearing. On January 31,  
15 2007, the Company filed a reply stating that a hearing is not warranted, but if it is granted  
16 the hearing should be expedited. In addition, the Company provided an exhibit showing  
17 that it has provided information to its ratepayers of the current situation. On February 8,  
18 2007, the Company requested that the hearing date be reset.  
19

20 **Q. What date is the hearing now scheduled?**

21 A. The hearing was originally scheduled for March 30, 2007, but has now been rescheduled  
22 for April 5, 2007.

1 **CONSUMER SERVICES**

2 **Q. Please provide a brief history of customer complaints received by the Commission**  
3 **regarding the Company. Additionally, please discuss customer responses to the**  
4 **Company's proposed accounting order.**

5 A. Staff reviewed the Commission's records and found one complaint, zero inquiries, and  
6 zero opinions during the past three years. The complaint dealt with a disconnection of  
7 water services for failure to pay. There were no customer responses to the Company's  
8 proposed accounting order.

9  
10 **SUMMARY OF FILING, RECOMMENDATIONS, AND ADJUSTMENTS**

11 **Q. Please summarize the Company's filing.**

12 A. The Company is requesting an accounting order that would authorize deferral of LPSCO's  
13 costs incurred in connection with the Company's response to the potential groundwater  
14 contamination from the Phoenix Goodyear Airport North Superfund Site ("PGA North  
15 site") including but not limited to 1) litigation costs related to defending the Company  
16 against lawsuits; 2) litigation costs related to seeking restitution from  
17 polluters/contaminators; 3) increases in operation and maintenance costs from alternative  
18 (replacement) water sources; 4) capital costs of acquiring and/or constructing alternative  
19 (replacement) sources of water; 5) capital costs and/or operating expenses to treat  
20 contaminated water supplies; 6) settlement costs and/or amounts received as a result of  
21 settlements with polluters/contaminators; and 7) punitive damages received as the result of  
22 litigation against polluters/contaminators.



1    **Q.    Please summarize Staff's recommendations.**

2    A.    Staff recommends that the Company's accounting order be authorized to defer potential  
3           groundwater contamination costs from the PGA North site, in relation to the seven items  
4           listed above.

5  
6    **Q.    Please give a brief history of the Environmental Protection Agency ("EPA")  
7           superfund site.**

8    A.    According to the West Valley View ("View") the community newspaper of Avondale,  
9           Goodyear, Litchfield Park & Tolleson as reported in the Tuesday, December 19, 2006  
10          issue: "The site was placed on the EPA's National Priorities, or Superfund, List in 1983 as  
11          the Litchfield Airport Area Superfund Site. After the airport property was transferred to  
12          the city of Phoenix, the site was renamed the Phoenix Goodyear Airport Area Superfund  
13          Site. Later, the site was divided into the Phoenix Goodyear Airport North and South sites  
14          because of different contamination sources and different potentially responsible parties  
15          identified to conduct the cleanups. The PGA North site was acquired in the 1980's by  
16          Connecticut-based Crane Co., which is responsible for the cleanup of that site. Goodyear  
17          Tire & Rubber Co. has cleanup responsibility for the PGA South site, encompassing  
18          portions of Phoenix Goodyear Airport."

19  
20          The View also reported in its December 15<sup>th</sup> issue that the plume from the PGA North site  
21          is spreading and is now threatening Algonquin Water Services' Litchfield Park Service  
22          Company, but no detectable levels of contamination were discovered in recent tests of the  
23          well.

1    **Q.    Does Staff agree that the contamination plume threatens the water supply in the**  
2           **Company's service area?**

3    A.    Yes.

4  
5    **Q.    Does Staff concur with the Company's proposal?**

6    A.    Yes, but would like to make a few recommendations, which will be explained later.

7  
8    **Q.    Is there a specific effective date requested by the Company?**

9    A.    No.

10  
11   **Q.    Is this a problem?**

12   A.    Yes, this could potentially be problematic; if the accounting order is granted in its present  
13       form the Company could show that it incurred costs in relation to the PGA North site  
14       anytime from 1983 forward, and include it as a deferred cost.

15  
16   **Q.    Has Staff examined other cases in relation to timing of deferred costs?**

17   A.    Yes, in Decision No. 61382, the Commission authorized Citizens Utilities Company  
18       ("CUC") and its other subsidiaries to defer for accounting purposes and future regulatory  
19       consideration the costs directly incurred to resolve the year 2000 computer problems.

20  
21   **Q.    In the application did CUC ask for a specific date to defer costs going forward?**

22   A.    Yes, the application was filed on December 18, 1998, but asked for recovery costs starting  
23       January 1, 1998.

1 **Q. Are there any other cases?**

2 A. Yes, in Commission Decision No. 58207, the Commission authorized Mohave Electric  
3 Cooperative, Inc. ("Mohave"), to defer cost of the investigative audit and related litigation  
4 concerning the past management of Mohave, its past auditors and the insurance companies  
5 until after the claims process and litigation are completed.  
6

7 **Q. Did Mohave ask for a specific date to defer costs going forward?**

8 A. Yes, the application was filed on December 18, 1992, but asked to recover costs going  
9 back to September 1991.  
10

11 **Q. When did the Company first learn of the possible contamination?**

12 A. According to the application for the accounting order on page 2, in July 2006, Company  
13 representatives learned that the TCE plume emanating from the PGA North Site had the  
14 potential to contaminate between 2 to 5 wells owned by the Company. At that time the  
15 Company stated that it had started taking the following steps: 1) increased water sampling  
16 frequency at 2 wells nearest the plume to once per week; 2) decreased pumping, as  
17 allowable by customer demand, at 2 wells nearest the plume; and 3) located sites for and  
18 permit/construction of 2 replacement wells to ensure ability to meet customer demand in  
19 the event of contamination of 2 wells nearest the plume.  
20

21 **Q. What date does Staff recommend as a reasonable starting date for the Company to  
22 defer costs associated with the groundwater contamination?**

23 A. Staff recommends a starting point of July 1, 2006, the time when the Company first  
24 became aware of the potential problem and started taking action, and incurring costs.

1     **Q.     Are there any other recommendations that Staff would like to make?**

2     A.     Yes, Staff would also like to recommend that no interest will accrue on the deferral, and  
3             that the Company report to the Commission the status of all matters related to the deferral  
4             and the cumulative costs thereof on an annual basis, beginning June 30, 2007. Further,  
5             Staff also recommends that the proceeds of any settlement be applied to reduce the  
6             deferral.

7  
8     **Q.     Is this consistent with any of the other Decisions mentioned above?**

9     A.     Yes, this is consistent with Decision No. 58207.

10

11    **Q.     Does this conclude your testimony?**

12    A.     Yes, it does.